

# City of Rockville Retirement Board

June 14, 2007

**PRESENT:** Allen Gorrellick, Chairperson; John Sverha, Citizen Member; Anita McCombs, AAME Representative; Catherine Tuck Parrish, Deputy City Manager. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Carlos Vargas, Director of Personnel; Mary Johnson, Personnel Administrator; Tim Peifer, Financial Systems Manager, Debbie Frederickson, Principal Group, as well as George Kiriakos and Robert Liberto, Segal Advisors.

**ABSENT:** Joe Pritchard, Union Representative, Sgt. Tim Marsh, FOP Representative, Robert Dorsey, Councilperson,

The meeting commenced at 10:05 a.m. and started with introductions.

## **I. Approval of Minutes from October 5, 2006 and December 8, 2006:**

Mr. Gorrellick made a motion to accept the minutes as presented. Mr. Sverha so moved. All were in favor. Mr. Sverha also suggested that the future minutes be condensed and Mr. Cohen suggested the term "Action Minutes". All were in favor.

Mr. Gorrellick suggested altering the Agenda due to Segal Advisors being delayed and the next item of discussion was item VI.

## **VI. Investment Policy Thrift Plan:**

Mr. Cohen stated that this was a follow-up item. The only changes made to this policy were the addition of Life Cycle and Mid-Cap Funds. Mr. Sverha made a motion to approve the changes highlighted in the cover memo to the Thrift Plan Investment Policy. Mr. Gorrellick seconded it and all were in favor.

Mr. Gorrellick thanked Gavin for a well-prepared agenda and stated that it makes his job easier to run the meeting. He also commented on a well-done packet.

Mr. Kiriakos and Mr. Liberto from Segal Advisors arrived at 10:15.

## **II. Review of Quarterly Performance Report October 1 – December 31: and**

## **III. Review of Quarterly Performance Report January 1 – March 31:**

Mr. Kiriakos gave a presentation of the investment performance of the defined benefit plan through December 31, 2006. He stated that the overall fund for the 12-month period had a gain of 13.65%, relative to 13.2 % return on policy index. He said it was a very good return. Mr. Cohen mentioned that the quarterly reports target allocations are over the max on the equity side for both quarters. Mr. Kiriakos said that the domestic piece is the one that is over and he didn't address it because of the asset allocation study and only wished to move the money once if the Board wanted to make changes in the asset allocation. Mr. Kiriakos suggested that the account manager be told what the minimum and maximum range is and instruct them to automatically rebalance on a regular basis through withdrawals and deposits based on the range. He said that rebalancing is exceedingly important. Mr. Cohen asked why the large cap can't beat the S&P 500? Mr. Kiriakos said it could be due to when trades are done and the timing of the cash flow.

Mr. Kiriakos went on to discuss the March investment report of the defined benefit plan. He stated that the format of the report has been revamped to include more charts. He said that the number one piece of economic news is that the U S GDP historically runs 3-3.5% and in the first quarter of the year it was excessively low at 1.3%. He said the overall fund was about \$2 million ahead of where it was at the end of the prior quarter. There is a \$2 million increase in the overall value of the portfolio. Overall he is very pleased in the way the fund is performing.

Mr. Liberto went on to talk about the Thrift Plan. He went over the report that ended December 31, 2006. He stated that as of December 31st the assets increased by about \$800,000. He said that participation in the plan is very well diversified. Mr. Liberto said that participants are choosing funds well. Mr. Liberto requested that Ms. Frederickson provide breakdown of participants by age. Ms. Frederickson said she would get a list to him. Mr. Liberto mentioned the letter that was sent to participants

notifying them of the elimination of three funds and the addition of the Mid-Cap and Life Cycle funds April 1, 2007. He said that overall the funds did rather well.

Mr. Liberto then discussed the report that ended March 31, 2007. He asked if the employees were happy with the changes to the plan? Ms. Johnson said that the employees are very happy with the addition of Lifecycle Funds. She stated that about 80 people made appointments to meet with her and changed to the Lifecycle Funds. Mr. Liberto said there is a need for more education for younger participants. He said that this is the only public sector plan that has participants in so many funds and that the plan is very healthy. He said that Principal is doing a great job to have participants understand asset allocations. He said the more diversified a participants' funds in the plan, the lower the risk. He stated that the returns are strong in all periods. He explained that the next quarter report would reflect the new funds. He mentioned that Principal has done a very nice job for both plans.

#### **IV. Investment Strategy Study/Asset Liability Model Study DB Plan:**

Mr. Cohen started the discussion referring to the ALM memo. He stated that at the last meeting there was a presentation by Rick Johnson from Segal about the availability of an asset liability model study. The Board decided to take time to decide if they want to do this. He said there is a cost attached to this study over and above the normal services with Segal. He said he was not sure if it was worth it for the Board to do separate modeling study. Mr. Cohen said that this was not something that he felt the Board should do at this time. Mr. Sverha said that he tended to agree. Mr. Kiriakos said that it was Segal's job to inform the Board that the capability to do this was there. Mr. Liberto said that the performance of assets had done well. Mr. Gorrellick asked Gavin if he had an opinion of doing the model? Mr. Cohen said he was not sure if it was worth spending \$50,000 on it. Mr. Gorrellick agreed. Mr. Sverha made a motion to not go ahead with the ALM at this time. Ms. Tuck Parrish seconded it. All were in favor.

Mr. Gorrellick asked Mr. Kiriakos if Segal could remind the Board to revisit it in about two years?

Mr. Kiriakos said yes.

#### **V. Investment Strategy Study to Determine Asset Allocation:**

Mr. Kiriakos gave the presentation. He stated that this study was based on Stochastic modeling, a random sampling of possible outcomes, adding two new asset classes, real estate and small cap. Mr. Gorrellick stated that the more risk you take the better the return. He asked what Segal would recommend for real estate? Mr. Kiriakos responded equity ownership in building commercial real estate. Mr. Gorrellick asked how do we participate in real estate? Ms. Frederickson responded that Principal has excellent real estate opportunities. Mr. Kiriakos stated that it is the fiduciary responsibility of the Board to look at what Principal has to offer as well as other fund companies that have real estate opportunities. Ms. Frederickson said she would be happy to explain the contract in detail at another time.

Broke for lunch at 12:40. Resumed meeting at 1:00.

Mr. Gorrellick commented from this report that he is seeing two general trends that lead to good results, moving out of large cap into higher risk small cap and moving out of fixed income to real estate. Mr. Kiriakos confirmed that was correct. Mr. Gorrellick said that it would be helpful if the Board could see a chart to visualize this better. Mr. Kiriakos said he could provide one and that instead of waiting until the next meeting to decide about asset allocation that a conference call could be arranged to discuss what to do and another one to decide whom you would choose. Mr. Liberto said that if the Board wanted to add an asset class he would like to see something in place by the first of the year. Mr. Kiriakos said he would not advise waiting until December to do the target allocation because of the time involved in the process. Mr. Cohen asked if it was the preference of Board to add one or two asset classes to the mix? Mr. Kiriakos agreed to do a chart and send it to the Board. Mr. Cohen will pick dates for the conference calls. He said that the next meeting should take place in the first two weeks of December.

#### **VII. Review of Educational Topics:**

It was decided that Mr. Kiriakos would do a presentation on "Statistics and Performance" and "Styles of Investment" at the next meeting. It was agreed that no more than two topics should be covered at one time.

#### **VIII. Discussion of Future Agenda Items:**

Through discussion by the Board it was decided that the items to be discussed at the next meeting would be the following:

- Board Members Fiduciary Duties and Responsibilities
- Board Members Liability Coverage
- Pension Protection Act, 2006
- Review of quarterly performance reports April 1- June 30 – Segal Advisors
- Review of quarterly performance reports July 1- September 30 – Segal Advisors
- Retiree COLA for 2008
- Review of April 1, 2007 Actuarial Report

Mr. Gorrelick made a motion to adjourn at 1:45 p.m. Ms. Tuck Parrish seconded it and all were in favor.